

Message Text

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ACTION EUR-12

INFO OCT-01 EA-09 ISO-00 AID-05 CIAE-00 COME-00 EB-07
FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06
SP-02 LAB-04 EPG-02 SIL-01 OMB-01 NSC-05 SS-15
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R 121700Z JUL 77
FM AMEMBASSY BONN
TO SECSTATE WASHDC 9756
DEPARTMENT TREASURY
INFO AMEMBASSY BERN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
AMCONSUL FRANKFURT

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USEEC ALSO FOR EMBASSY, USOECD ALSO FOR EMBASSY

DEPARTMENT PASS FEDERAL RESERVE

E.O. 11652: N/A
TAGS: EFIN, GW
SUBJECT: FINANCIAL DEVELOPMENTS (WEEK ENDING JULY 11)

1. FOREIGN EXCHANGE MARKET:
THE DOLLAR CONTINUED TO WEAKEN ON GERMAN FOREIGN EXCHANGE
MARKETS, MOST NOTABLY OVER THE WEEKEND WHEN IT LOST
2 PFENNIGS TO THE DEUTSCHEMARK. THE BUNDESBANK STEPPED
IN ON MONDAY, PURCHASING \$8.2 MILLION IN WHAT MOST
OBSERVERS DESCRIBED AS A NOMINAL GESTURE TO SUPPORT THE
DOLLAR AND STEM THE RECENT FALL. FRANKFURT SPOT AND
FORWARD DOLLAR RATES DURING THE PERIOD UNDER REVIEW
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DEVELOPED AS FOLLOWS:

FORWARD DOLLARS
SPOT DOLLARS (IN PCT. PER ANNUM)
OPENING FIXING CLOSING ONE-MONTH THREE-MOS

JULY 5 2.3115 2.3103 2.3130 -1.7 -2.0

6	2.3125	2.3169	2.3185	-1.5	-1.9
7	2.3160	2.3067	2.3055	-1.6	-1.9
8	2.3070	2.3078	2.3050	-1.8	-1.8
11	2.2960	2.2883	2.2815	-1.8	-1.8
12	2.2840	2.2890	N.A.	N.A.	N.A.

PRESS COMMENTARY ON THIS SUBJECT HAS NOT BEEN PARTICULARLY EXTENSIVE BUT HAS REFLECTED A VARIED SPECTRUM OF OPINION AND EMPHASIS. GENERALLY, FINANCIAL REPORTING HAS STRESSED THE EFFECTS OF AN EXPECTED LARGE U.S. CURRENT ACCOUNT DEFICIT IN 1977 IN EXPLAINING RECENT TRENDS. SOME ANALYSTS HOWEVER HAVE FIXED ON THE U.S.-GERMAN DIALOGUE CONCERNING ECONOMIC STIMULATION AS THE MAJOR POINT IN THE CURRENT UNREST ON FOREIGN EXCHANGE MARKETS. AN EDITORIAL IN TUESDAY'S FRANKFURTER ALLGEMEINE ZEITUNG IS PERHAPS THE MOST EXTREME EXAMPLE OF THE LATTER. IN IT THE AUTHOR ATTRIBUTES THE RECENT DECLINE OF THE DOLLAR LARGELY TO WASHINGTON'S "ENDLESS ASSERTIONS" THAT THE STRONGER CURRENCIES MUST APPRECIATE TO ASSIST COUNTRIES WITH BALANCE OF PAYMENTS DIFFICULTIES. THUS, THE EDITORIAL REASONS, SPECULATORS ARE ENCOURAGED TO MOVE INTO THE STRONG CURRENCIES BECAUSE OF WASHINGTON'S "IRRESPONSIBLE BEHAVIOR."

THE COMMERZBANK IN ITS MOST RECENT APPRAISAL OF THE FOREIGN EXCHANGE MARKET PUBLISHED JULY 6, MAINTAINED ITS EARLIER FORECAST OF A "REALISTIC" DOLLAR/DM RE-

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LATIONSHIP OF \$1 EQUALS DM 2.30-2.35.
FOR THE SECOND HALF OF 1977, COMMERZBANK FORECAST
\$1 EQUALS DM 2.25 TO BE THE LOWEST LEVEL POSSIBLE.

2. APEL TO ATTEND CENTRAL BANK COUNCIL MEETING:
ACCORDING TO THE PRESS, FINANCE MINISTER APEL WILL
PARTICIPATE IN THE MEETING OF THE CENTRAL BANK COUNCIL
ON JULY 14.

3. BUNDESBANK FOREIGN POSITION:
DURING THE PERIOD JUNE 24-30, THE BUNDESBANK'S NET
FOREIGN POSITION INCREASED BY DM 0.2 BILLION TO DM 85.0
BILLION. GERMANY'S IMF GOLD TRANCHE POSITION DECLINED
BY DM 201 MILLION AND FOREIGN EXCHANGE HOLDINGS FELL
DM 690 MILLION. OFFSETTING THIS WAS AN INCREASE IN
CLAIMS AGAINST THE EUROPEAN MONETARY UNION OF SLIGHTLY
MORE THAN DM 1.0 BILLION.

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4. BANK LIQUIDITY:

IN THE SAME PERIOD BANK LIQUIDITY DECLINED SHARPLY. MAJOR FACTORS CONTRIBUTING TO THE DECLINE WERE A SUBSTANTIAL INCREASE IN CURRENCY IN CIRCULATION (DM 4.4 BILLION) AND A RESTOCKING OF BANKS' RESERVES HELD AT THE BUNDESBANK (DM 11.6 BILLION), WHICH LAST WEEK HAD DECLINED BY DM 11.3 BILLION. IN ADDITION GOVERNMENT SALES OF MONEY MARKET PAPER (FINANZIERUNGSSCHAETZE) ABSORBED DM 200 MILLION OF BANK LIQUIDITY. A FACTOR INCREASING LIQUIDITY WAS A NET DM 1.7 BILLION REDUCTION IN OFFICIAL ASSETS HELD AT THE BUNDESBANK. THE FEDERAL GOVERNMENT REDUCED ITS HOLDINGS BY DM 3.8 BILLION AND THE LAENDER BY DM 4.6 BILLION. DEPOSITS

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OF THE POSTAL SERVICE INCREASED HOWEVER BY DM 6.9 BILLION. OTHER FACTORS, INCLUDING THE CHANGE IN THE

BUNDESBANK FOREIGN POSITION INCREASED LIQUIDITY BY DM 6.0 BILLION.
THE LOSS OF LIQUIDITY WAS COMPENSATED BY BANKS BORROWING AT THE BUNDESBANK. LOMBARD BORROWINGS INCREASED BY DM 8.3 BILLION TO TOTAL DM 8.9 BILLION AT THE MONTH'S END AND REDISCOUNT BORROWINGS INCREASED BY DM 0.2 BILLION TO DM 15.5 BILLION.

5. MONEY MARKET:

CALL MONEY RATE REMAINED BASICALLY UNCHANGED DURING THE PAST WEEK, AT ABOUT 4.5 PERCENT. ONE- AND THREE-MONTH RATES INCREASED SLIGHTLY. FOR THE PERIOD JULY 5-11, FRANKFURT INTERBANK RATES WERE AS FOLLOWS:

	CALL MONEY	ONE-MONTH	THREE-MONTH
JULY 5	4.5-4.6	4.20	4.25
6	4.5	4.20	4.25
7	4.4-4.5	4.20	4.25
8	4.5	4.20	4.25
11	4.5	4.35	4.35

6. BOND MARKET:

ON THE MARKET FOR DOMESTIC BONDS THERE WAS VIRTUALLY NO CHANGE IN THE PAST WEEK. ACCORDING TO THE PRESS AVERAGE YIELDS OF OUTSTANDING DOMESTIC BONDS BROKEN DOWN BY REMAINING MATURITY ARE AS FOLLOWS:

REMAINING MATURITY (YEARS)	1	3	5	6	8	10

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JULY 10	4.60	5.50	6.00	6.15	6.50	6.65
JULY 3	4.60	5.50	6.00	6.20	6.55	6.65

CURRENTLY UNDER DECISION IS A LOAN FOR THE CITY OF HAMBURG. CONDITIONS AND AMOUNTS ARE NOT YET DECIDED BUT TALK IS OF DM 200 MILLION FOR 15 YEARS WITH CREDITORS HAVING A RIGHT OF REDEMPTION AFTER 10 YEARS. CONDITIONS ON A DM 200 MILLION OFFERING BY THE LASTEN-AUSGLEICHSBANK HAVE BEEN SET AT 6.5 PERCENT FOR 10 YEARS, TO BE SOLD AT PAR.

FOREIGN DM BONDS:

ON THE MARKET FOR FOREIGN DM CREDITS/BONDS, THE FOLLOWING HAVE BEEN ANNOUNCED:

- THE GIROZENTRALE DEUTSCHE KOMMUNALBANK HAS, ACCORDING TO THE PRESS, ARRANGED A DM 100 MILLION CREDIT FOR THE CITY OF OSLO. THE INTEREST RATE IS 8 PERCENT,

MATURITY 15 YEARS.
- A BANKING CONSORTIUM LED BY WESTDEUTSCHE LANDESBANK
HAS GRANTED MEXICO A DM 150 MILLION CREDIT. THE
MATURITY IS THREE YEARS, INTEREST RATE IS NOT KNOWN.
CASH

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